

FDIC State Profile

Winter 2005

Colorado

Colorado job growth continues on track to finish 2.2 percent higher in 2005.

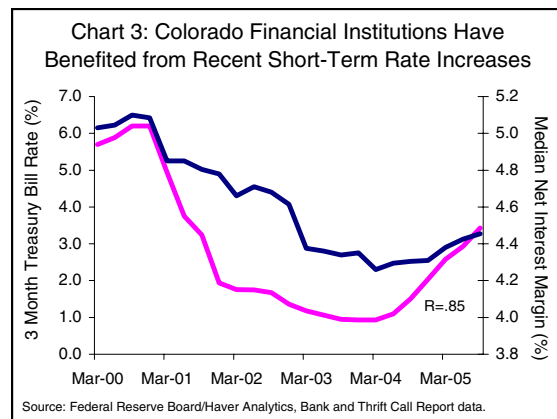
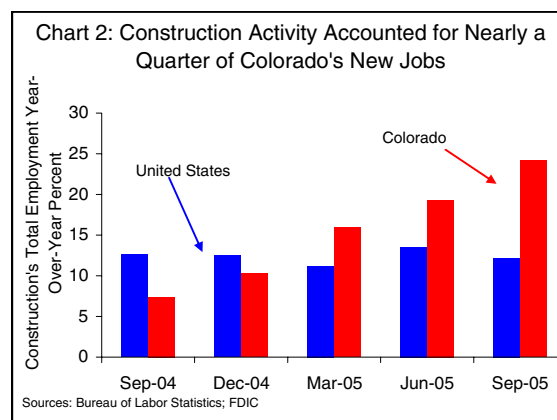
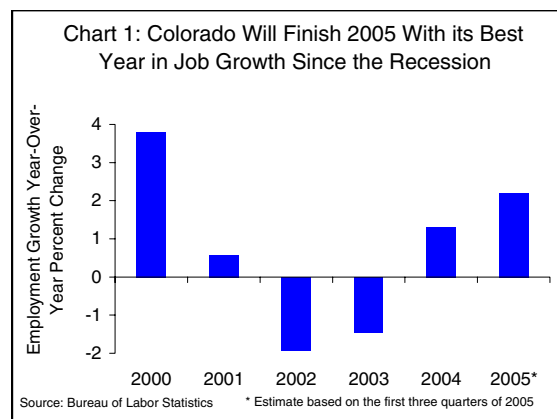
- Statewide employment growth (non-seasonally adjusted) averaged 2 percent in third quarter 2005 from the prior year, compared to 1.7 percent for the nation. Colorado ranks 13th among the states in job growth and is on track to post its best year since 2000, before the recession began (see Chart 1).
- Gains in employment helped reduce the state's unemployment rate to 5.1 percent, almost identical to the U.S. jobless rate of 5 percent. A maturing state economic expansion has led to tighter labor markets and acceleration in personal income growth.
- Natural resources and mining, and construction were the fastest growing sectors while the information and manufacturing sectors remain a drag on overall state job growth.

Better late than never: Colorado employment approaches new peak.

- Colorado lost approximately 100,000 jobs (seasonally adjusted) between first quarter 2001 and third quarter 2003, or 4.5 percent of its nonfarm employment base.
- The state has recovered nearly all the jobs lost during the recession, but the severity and length of the state's recession caused it to trail other Western states in job growth. However, fueled by strong U.S. and global economic growth, Colorado's delayed expansion should translate into accelerating job growth in 2006.

Colorado housing markets remain robust but appreciation remains lower than the nation.

- Receding national housing sales and growing inventory levels suggest that the U.S. housing market may be slowing, possibly contributing less to economic growth in 2006 compared to recent years.
- However, Colorado's housing picture is mixed. Existing single-family home sales remain fairly robust, averaging more than 135,000 units sold (seasonally adjusted annual rates) in the second and third quarters—establishing record highs in both quarters. Still, Colorado home price



appreciation continues to lag the nation—5.6 percent versus 12 percent nationally in third quarter 2005, placing the state 45th nationwide.

- Overbuilding does not appear to be a major problem in the state. After advancing more than 20 percent in 2004, growth in single-family building permits cooled considerably to 3.9 percent through the first three quarters of 2005.
- The construction sector's importance as a major generator of total employment has grown substantially in the past year (see Chart 2). Despite accounting for less than 7 percent of total employment, the construction sector produced nearly a quarter of Colorado's net job gains for the year ending third quarter 2005
- Nearly 44 percent of the state's purchase loans in the first half of 2005 were interest-only (IO) loans, placing Colorado third behind the District of Columbia and Virginia for share of IO's. Additionally, four Colorado metropolitan areas—**Boulder, Denver, Fort Collins** and **Colorado Springs**—ranked among the top 25 metro areas with IO loans exceeding 40 percent of purchase loans.¹ Generally, these products are more commonly found in states with the highest home appreciation rates.

Energy costs may sap strength from consumer purchases in late 2005 and early 2006.

- Growing global demand and the aftermath of hurricanes Katrina and Rita have resulted in upward price pressures for petroleum-based products and other sources of energy. Additionally, average household expenditures for natural gas and heating oil this winter are forecast to be significantly higher in the heavily impacted Midwest and Northeast than in the West.² Although Colorado households generally are more affluent than the national average, higher energy costs could still dampen local consumer spending and economic growth.³

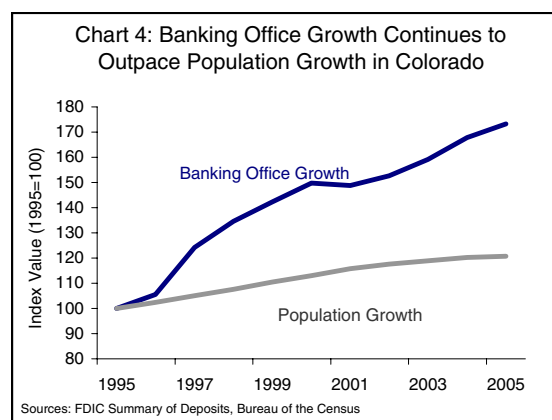
Colorado insured institutions posted solid results for the first nine months of 2005.

- Banks and thrifts headquartered in Colorado posted a median return on assets of 1.19 percent for the nine months ending September 30, 2005, a level above that of the same period for the past two years and higher than the national average of 1.07 percent. Improving credit quality has allowed provision expenses to remain at decade-low levels.

- As almost three out of four insured institutions in Colorado hold less than \$250 million in assets, earnings of these institutions are driven in large part by the net interest margin. Many of these community financial institutions remain asset sensitive and have benefited from the recent increase in short-term interest rates (see Chart 3).
- However, a flat yield curve could be problematic going forward. The spread between ten-year U.S. Treasury notes and three-month U.S. Treasury bills is the lowest level since March 31, 2001, just prior to the last recession. Since a flattening yield curve has historically been a problem for bank earnings, recent decreases in spread imply increasing pressure on future margins.
- According to a recent national survey of bank executives, 56 percent said they expect interest rates to have a negative impact on earnings in the near term, up from 31 percent a year earlier.⁴

Colorado branch growth continues to exceed population expansion.

- Colorado branch growth has remained strong for the past ten years, and has been consistently above the rate of population growth (see Chart 4). For the most recent 12 months ending June 30, 2005, Colorado branch growth was 3.2 percent, the eighth fastest in the U.S.
- **Greeley**, Colorado reported the fastest branch growth of all metropolitan markets in the United States (22 percent) for the 12-month period ending June 30, 2005. Fort Collins (10.3 percent), Boulder (8.1 percent), and **Pueblo** (7.9 percent) were also in the top 30 fastest growing metro markets. All of these metro areas reported population growth at or above the U.S. average.



¹"The MarketPulse," Loan Performance, 2005 Issue 2, June Data.

Generally, these products are more commonly found in states with the highest home appreciation rates.

²Short-Term Energy Outlook, December 2005 by the Energy Information Administration.

³Median Household Income (In 2004 Inflation-adjusted Dollars) by State Ranked from Highest to Lowest Using 3-Year Averages: 2002-2004, by the U.S. Census Bureau.

⁴American Banker Financial Services Executive Forum, third quarter 2005.

Colorado at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	Q3-04	2004
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.0%	2.1%	1.7%	1.3%	-1.4%
Manufacturing (7%)	-1.8%	-0.4%	0.4%	-0.9%	-6.1%
Other (non-manufacturing) Goods-Producing (8%)	7.0%	6.4%	2.7%	1.7%	-5.9%
Private Service-Producing (69%)	1.7%	1.8%	1.9%	1.6%	-0.8%
Government (16%)	2.6%	2.1%	0.7%	0.9%	0.2%
Unemployment Rate (% of labor force)	5.2	5.2	5.5	5.5	6.2

Other Indicators	Q3-05	Q2-05	Q3-04	Q3-04	2004
Personal Income	N/A	6.9%	4.5%	5.8%	2.6%
Single-Family Home Permits	6.9%	0.1%	13.2%	11.9%	-4.4%
Multifamily Building Permits	-19.8%	-46.7%	18.7%	6.7%	-46.1%
Existing Home Sales	7.9%	2.7%	0.8%	12.1%	2.7%
Home Price Index	5.5%	6.0%	4.8%	4.0%	2.8%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	9.87	7.90	6.17	6.16	5.74

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	Q3-04	2004
Institutions (#)	175	175	175	177	180
Total Assets (in millions)	43,371	41,765	38,962	39,394	35,347
New Institutions (# < 3 years)	10	10	11	11	12
Subchapter S Institutions	45	45	42	44	41

Asset Quality	Q3-05	Q2-05	Q3-04	Q3-04	2004
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.08	0.99	1.25	1.27	1.44
ALLL/Total Loans (median %)	1.10	1.08	1.19	1.19	1.23
ALLL/Noncurrent Loans (median multiple)	2.27	2.66	2.31	2.08	2.53
Net Loan Losses / Total Loans (median %)	0.04	0.02	0.05	0.09	0.12

Capital / Earnings	Q3-05	Q2-05	Q3-04	Q3-04	2004
Tier 1 Leverage (median %)	8.76	8.71	8.51	8.56	8.30
Return on Assets (median %)	1.29	1.20	1.21	1.09	1.05
Pretax Return on Assets (median %)	1.78	1.69	1.62	1.41	1.47
Net Interest Margin (median %)	4.53	4.44	4.39	4.33	4.35
Yield on Earning Assets (median %)	6.47	6.25	5.79	5.70	5.90
Cost of Funding Earning Assets (median %)	1.85	1.65	1.21	1.22	1.41
Provisions to Avg. Assets (median %)	0.09	0.09	0.07	0.10	0.13
Noninterest Income to Avg. Assets (median %)	0.80	0.77	0.78	0.79	0.82
Overhead to Avg. Assets (median %)	3.28	3.29	3.24	3.28	3.27

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	Q3-04	2004
Loans to Assets (median %)	64.1	64.6	64.2	64.7	60.9
Noncore Funding to Assets (median %)	16.4	16.0	15.3	15.9	15.7
Long-term Assets to Assets (median %, call filers)	11.2	12.0	13.6	13.0	15.0
Brokered Deposits (number of institutions)	48	45	34	40	33
Brokered Deposits to Assets (median % for those above)	3.7	4.6	5.6	5.4	4.0

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	Q3-04	2004
Commercial and Industrial	67.1	68.4	64.2	64.5	63.1
Commercial Real Estate	255.5	230.1	247.9	249.0	203.9
<i>Construction & Development</i>	70.7	63.6	54.3	59.1	49.5
<i>Multifamily Residential Real Estate</i>	3.8	3.9	5.5	4.7	5.0
<i>Nonresidential Real Estate</i>	140.6	133.3	134.9	144.9	121.2
Residential Real Estate	132.6	136.4	137.5	135.3	138.5
Consumer	18.9	17.8	20.8	19.8	26.8
Agriculture	7.0	6.2	6.4	6.5	5.6

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Denver-Aurora, CO	87	39,459	< \$250 million	124 (70.9%)
Boulder, CO	30	5,350	\$250 million to \$1 billion	42 (24%)
Colorado Springs, CO	43	4,953	\$1 billion to \$10 billion	9 (5.1%)
Fort Collins-Loveland, CO	31	3,713	> \$10 billion	0 (0%)
Greeley, CO	29	2,604		